

ECO SECURITIES

Do Payments for Ecosystem Services Work?

Biodiversity in
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Workshop 5:
'Innovative Finance Mechanisms'

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Key Questions

Overall question

Are Payments for Ecosystem Services effective and how can we forge partnerships between NGOs, companies and ODA to leverage funding and provide additional resources to manage our natural resources better?

Question to EcoSecurities

Do Payments for Ecosystem Services work?

Yes, because ...

...there is a (GHG) market and there are players active in this market,

- GHG market with 107 Mio tCO₂e traded in 2004 (project based mechanisms) and about 200 Mio t in 2005 at prices of €5-10/27 per tCO₂e (~\$1.5 for VERs in the voluntary market).
- Mainly driven by int. compliance regime (Kyoto Protocol) and a regional market to support the achievement of binding reduction targets (EU ETS).
- Uncertainty whether developing countries and economies in transition are able to satisfy the demand for emission reductions before 2012.
- Estimations of about 1.3-1.5 billion t demand for CERs/ERUs to close the gap for the 1st commitment period (2008-12) of the Kyoto Protocol.
- Globally operating companies like EcoSecurities with payments for environmental services (i.e. GHG market)/environmental finance solutions as the core business.
- LULUCF only 4% of the overall contracted volumina from project based emission reductions (January 2004 - April 2005).
- In mid-2006 almost a quarter of EcoSecurities' origination portfolio consists of projects from the land use and forestry sector.

... there are combined GHG-biodiversity protection projects,

- A lot of (technical) experience with respect to, e.g., baseline development, additionality, leakage, or environmental and socio-economic impacts has been gained through combined carbon-biodiversity conservation projects (PAP - Costa Rica, Noell Kempff - Bolivia, Guayana Shields Initiative, FOMISS - Malaysia)
- At the moment these forest conservation projects do ,only‘ have the possibility to receive additional revenues from these new financial mechanisms through voluntary schemes such as the sale of VERs and/or premium on products or certification
(National Programme for Conservation of Shade Grown Coffee - El Salvador, Krombacher Initiative - Africa)
- More than 50% of CER buyers would be willing to pay a premium for CDM-LULUCF projects that deliver additional environmental and socio-economic benefits according to standards such as from the Climate, Community and Biodiversity Alliance (EcoSecurities - Market Survey 2005).

but we need to ...

...take into account the different development status of the emerging markets for PES,

- Biodiversity and watershed protection markets less developed or rather consist of dispersed and less regulated niche markets;
- watershed markets or services are rather locally based whereas biodiversity services are more suited for international trading (some argue rather locally);
- more direct deals with less governmental intervention or approval procedures with less clear transaction structures and more variable prices;
- international regulatory framework for biodiversity offsets or efforts to link existing national or regional frameworks speculative at the moment;
- first experiences with voluntary offsets with a number of companies (technical expertise, institutional support, making the business case);
- existing mandatory offsets could eventually be part of an emerging market in tradable “offset credits”.

... continue the work at the policy, market and technical level,

- Addressing emissions from (tropical) deforestation under the UNFCCC by using additional funds or market based mechanisms offers the chance to link the Rio Conventions and let the two other Conventions (CBD, UNCCD) benefit or rather tap into these financial resources.
- A certain kind of int. regulatory framework under the CBD to mobilize more and new financial resources is needed if activities shall not 'only' be restricted to limited voluntary measures or a piggy-backing on carbon projects
 - Questions to be asked: Scope, aims, new financial resources wanted/needed and from which sources (funds-trading)?
- 'Only' the public sector (donors, multilaterals, NGOs) to carry the burden or burden sharing with the private sector for biodiversity protection?
- Who is going to pay for what (quantification-necessary or other forms of payments?) and why (demand-needs to be created artificially!)?

... use public sector/donor funding to facilitate the further development of PES (markets),

- Public sector funding or ODA has, can and should further be used to facilitate necessary developments
 - on the supply and demand side,
 - for bringing supply and demand side together;
 - to further establish int. and local technical infrastructures, systems and capacities for PES (e.g., FAO, UNDP, World Bank in the carbon market);
- Question whether to continue individual, separate measures or rather coordinated activities through the creation of fund(s) or facility/ies.
- Partnerships between public sector/int. organisations and private sector actually exist which develop and implement such facilitation processes, kick-start PES processes at country level and assist with market development and access
 - Global Mechanism to the UNCCD - EcoSecurities Strategic Partnership on the Compensation for Ecosystem Services Programme.

**... be careful to not expect too much from PES
as well as see them as part of an overall package**

- PES schemes/systems such as the CDM demonstrate that related projects
 - either (hardly) deliver on both objective, i.e. contribution to emission reductions and to sustainable development (mostly not on the sustainable development side),
 - or they are so heavily loaded with ‘development’ co-benefits that the emissions reduction component has been sidetracked and/or they do not attract the necessary (co-)funding to be further developed and implemented.
- Successful CDM-LULUCF projects had very long lead times, complicated (financial) project structures and were developed with a lot off different partners (int. organisations, NGOs, private sector).

...then we will be able to further develop and make more use of payments for ecosystem services for the provision of additional resources to the better management of our natural resources!

Contact

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